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United States
Department of Defense



Army Needs to Identify Government Purchase Card
High-Risk Transactions

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Acronyms and Abbreviations

ADA	Antideficiency Act
AO	Approving Official
A/OPC	Agency/Organization Program Coordinator
FAR	Federal Acquisition Regulation
FMR	Financial Management Regulation
GPC	Government Purchase Card
OUSD (ATL)	Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics
PCPMO	Purchase Card Program Management Office
PCOLS	Purchase Card On-Line System
U.S.C.	United States Code



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VA 22350-1500

January 20, 2012

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
ASSISTANT SECRETARY OF THE ARMY (ACQUISITION,
LOGISTICS, AND TECHNOLOGY)
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Army Needs to Identify Government Purchase Card High-Risk Transactions
(Report No. DODIG-2012-043)

We are providing this report for review and comment. We considered management comments on a draft of this report from the Deputy Assistant Secretary of the Army (Procurement) and the Assistant Secretary of the Army (Financial Management and Comptroller) when preparing the final report.

DoD Directive 7650.3 requires that recommendations be resolved promptly. We received comments from the Deputy Assistant Secretary of the Army (Procurement) on recommendations made in this report. The comments of the Deputy Assistant Secretary were partially responsive. We request additional comments on Recommendations 1.a, 1.b and 1.d by February 20, 2012. The Assistant Secretary of the Army (Financial Management and Comptroller) comments were partially responsive. We request additional comments on Recommendation 2.a.2 by February 20, 2012.

If possible, send a Microsoft Word (.doc) file and portable document format (.pdf) file containing your comments to aud-colu@dodig.mil. Copies of the management comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8905.

Amy J. Frontz

FoR

Amy J. Frontz, CPA
Principal Assistant Inspector General
for Auditing



Results in Brief: Army Needs to Identify Government Purchase Card High-Risk Transactions

What We Did

The audit objective was to determine whether Army Government Purchase Card (GPC) transactions, identified as high-risk by the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics using the Purchase Card On-Line System (PCOLS), were made in compliance with applicable laws and regulations. We also assessed whether the Army approving officials detected any of the transactions that were noncompliant. We reviewed a non-statistical sample of 112 transactions, valued at approximately \$3.6 million, which PCOLS identified as high-risk for being noncompliant.

What We Found

PCOLS identified Army high-risk transactions that we determined did not comply with laws and regulations for using Government Purchase Cards (GPC). Specifically, 17 noncompliant transactions valued at \$1.2 million were made on cards issued by eight Army contracting offices. The Army detected only one of the transactions. Two of the transactions resulted in more than \$1 million in potential Antideficiency Act violations.

The transactions were noncompliant because cardholders and approving officials responsible for the transactions ignored GPC laws and regulations to facilitate making desired purchases to meet mission needs. They also believed the immediate need for an item overrode GPC business rules.

Army GPC officials did not detect 16 of the 17 noncompliant transactions because the Army did not use a data mining system, such as

PCOLS, to identify high-risk transactions and independently monitor the Army's GPC program. Army officials believed it was too difficult to implement a data mining tool.

PCOLS did identify high-risk transactions that did not comply with laws and regulations for using GPCs. However, the Army did not use a data mining program like PCOLS for this purpose and missed the opportunity to identify noncompliant transactions that would potentially prevent misuse of its GPC. This led to Army cardholders wasting funds by procuring prohibited items and by splitting purchases that did not receive the benefit of competition.

What We Recommend

We made recommendations to the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) and the Assistant Secretary of the Army (Financial Management and Comptroller). See the complete list of recommendations at the end of the finding.

Management Comments and Our Response

The Deputy Assistant Secretary of the Army (Procurement) comments were partially responsive concerning the review of previously identified high-risk transactions. We disagree with the Army position to not review potential violations of laws and regulations. The Assistant Secretary of the Army (Financial Management and Comptroller) comments were partially responsive. Proper procedures were not followed in the potential Antideficiency Act violation investigation by the U.S. Army Corps of Engineers. Please see the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Assistant Secretary of the Army (Acquisition, Logistics and Technology)	1.a, 1.b, 1.d	1.c
Assistant Secretary of the Army (Financial Management and Comptroller)	2.a.2	2.a.1, 2.b

Please provide comments by February 20, 2012

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Introduction

Audit Objective

The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD[ATL]) requested this audit. Our objective was to determine whether Army Government Purchase Card (GPC) transactions identified as high-risk by the Purchase Card On-Line System (PCOLS) were made in compliance with applicable laws and regulations. In addition, we assessed whether the Army approving officials detected the noncompliant transactions that PCOLS identified. See Appendix A for a discussion of the scope and methodology and for prior coverage.

Background

Section 2784, title 10, United States Code (10 U.S.C. § 2784) establishes the GPC Program for the Department of Defense. In addition, section 2784 requires the DoD Office of Inspector General to perform periodic audits of the DoD GPC Program to identify:

- potentially fraudulent, improper, and abusive use of purchase cards;
- patterns of improper cardholder transactions, such as purchases of prohibited items; and
- categories of purchases that should be made by means other than the GPC to better aggregate purchases and obtain lower prices.

Audit Request

In March 2010, the OUSD (ATL) Purchase Card Program Management Office (PCPMO) used PCOLS to identify high-risk Army transactions. Of 96,508 Army sponsored transactions made between June 2009 and November 2009, the data mining application identified 69,014 transactions as high-risk. PCPMO then provided us with 3,451 transactions that the Deputy Director of the PCPMO believed had the highest risk of being improper.

The 3,451 transactions PCPMO provided were flagged as high-risk for attributes such as close to card limit, possible split purchase, and weekend or holiday purchase. PCOLS logic helped the PCPMO to identify the transactions having the highest risk of being improper.

Although technology and tools, like PCOLS, existed to allow the Army to more readily review and detect improper transactions, at the time of the audit the Army had not committed to using PCOLS or tools like it. Rather, management relied only on manual reviews to detect noncompliant transactions.

Background of Purchase Card On-Line System for the DoD Government Purchase Card Program

DoD Office Responsible for the Government Purchase Card Program

The OUSD(ATL) PCPMO is responsible for monitoring and issuing policy for the DoD GPC Program. In response to internal control and policy compliance issues, the PCPMO assisted in developing PCOLS, an automated system created to examine and identify high-risk transactions.

The Purchase Card On-Line System

According to DoD documentation, PCOLS is a DoD-wide suite of electronic systems that GPC officials use to improve the management and accountability within their GPC Program organizations. PCOLS is comprised of four primary applications: Enterprise Monitoring and Management of Accounts; Authorization, Issuance, and Maintenance; Data Mining; and Risk Assessment.

The Enterprise Monitoring and Management of Accounts and the Authorization, Issuance, and Maintenance applications are used to establish cardholder and approving official's (AO) information in the PCOLS database. The Data Mining application reviews, in near real-time, GPC transactions using software that identifies correlations, patterns, and trends in GPC buying actions. The Risk Assessment application uses internal controls and measures, coupled with results from the Data Mining application, to assess and report on the overall "health" of a DoD organization's GPC program.

Applicable Laws and Regulations

The April 2009 DoD Charge Card Guidebook (GPC business rules) provides officials with an overview of the policies and processes for establishing and managing GPC programs, to include mandatory requirements. The Department of the Army was represented in the preparation of the guidebook through the DoD Charge Card Integrated Product Team.

The table presents the types of noncompliance and violations regarding the transactions we examined during the audit, and it summarizes laws and regulations applicable to those transactions.

Table. GPC Transaction Noncompliance and Criteria

Type of Noncompliance	Definition	Governing Criteria
Appropriation Violation	The incurring of obligations or the making of an expenditure in violation of appropriation law as to purpose, time, and amounts specified in the defense appropriation or the appropriation of funds.	Antideficiency Act (ADA): Section 1341, title 31, United States Code (31 U.S.C. § 1341), “Limitations on expending and obligating amounts,” states that cardholders may not make and officials may not authorize Government purchases that exceed the amount available in the appropriation.
		DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” (DoD FMR), volume 14, chapter 2, “Antideficiency Act Violations,” states that an ADA violation may occur when a purchase exceeds the amount authorized, the purposes authorized for the appropriation are violated, or the funds were not available at that time.
Bona Fide Need Violation	Using a fiscal year’s funding for the needs of the following fiscal year.	Bona Fide Needs Rule: 31 U.S.C. § 1502(a), “Balances available,” states that an appropriation that is limited for obligation to a definite period is available only for payment of expenses properly incurred during that limited period and is not available after that time.
Legitimate Government Need Violation	Purchasing items that do not comply with procurement statutes and regulations or items that are for personal use.	Purpose Statute: 31 U.S.C. § 1301(a), “Application,” states that appropriations must be applied only to the items for which the appropriations were made except as otherwise provided by law.
Split Payment*	An inappropriate contracting action by which a cardholder makes multiple payments for a single invoice on existing contracts, each under the single-purchase limit, so the total payment appears to be under the limit.	10 U.S.C. § 2304, “Contracts: competition requirements” states that a proposed purchase or contract for an amount above the simplified acquisition threshold may not be divided into several purchases or contracts for lesser amounts to use the simplified procedures for purchasing property and services based on market research.
		Federal Acquisition Regulation (FAR) 13.003, “Simplified Acquisition Procedures,” “Policy,” states that requirements aggregating more than the simplified acquisition threshold must not be separated into several purchases that are less than the applicable threshold. The simplified acquisition threshold was \$100,000 and the micro-purchase threshold was \$3,000.

*For purposes of this report, the terms “split payment” and “split purchase” fall under the same criteria. The only difference is that payments are made on contractual documents whereas purchases are distinguished as normal GPC transactions.

Type of Noncompliance	Definition	Governing Criteria
Split Purchase*	An inappropriate contracting action by which a cardholder potentially deprives the Government of the benefits of competition or avoids other Government procurement policies to stay under the single purchase limit.	10 U.S.C. § 2304, “Contracts: competition requirements” states that a proposed purchase or contract for an amount above the simplified acquisition threshold may not be divided into several purchases or contracts for lesser amounts to use the simplified procedures for purchasing property and services based on market research.
		FAR 13.003, “Simplified Acquisition Procedures,” “Policy,” states that requirements aggregating more than the simplified acquisition threshold or the micro-purchase threshold must not be separated into several purchases that are less than the applicable threshold. The simplified acquisition threshold was \$100,000 and the micro-purchase threshold was \$3,000.
Supporting Documentation	Maintaining and keeping available the documentation that supports a transaction.	31 U.S.C. § 1501, “Documentary evidence requirement for Government obligations,” states that an amount must be recorded as an obligation of the U.S. Government only when supported by documentary evidence.
		DoD FMR, volume 10, chapter 23, “Purchase Card Payments,” implements 10 U.S.C. § 2784 “Management of purchase cards,” which requires that records of each GPC transaction be retained in accordance with standard Government policies. The DoD FMR requires that documentation be maintained at all levels to support the integrity of the GPC program and facilitate the reconciliation and payment of GPC transactions.

*For purposes of this report, the terms “split payment” and “split purchase” fall under the same criteria. The only difference is that payments are made on contractual documents whereas purchases are distinguished as normal GPC transactions.

Internal Controls Over GPC Program Transactions

DoD Instruction 5010.40, “Managers’ Internal Control Program (MICP) Procedures,” July 29, 2010, implements DoD policy, pursuant to Section 1101, 3512, and 7501 of Title 31, United States Code, and Office of Management and Budget (OMB) Circular No. A-123, “Management’s Responsibility for Internal Control,” December 21, 2004, that a managers’ internal control program be established to review, assess, and report on the effectiveness of internal controls in DoD.

The Army did not have an automated control system in place to assist in the detection of GPC transactions that did not comply with laws and regulations. Additionally, the Army internal control process did not detect transactions that PCOLS identified as having a high-risk of noncompliance with laws and regulations. We will provide a copy of the final report to the senior official in charge of internal controls for the Assistant Secretary of the Army (Acquisition, Logistics, and Technology).

Finding. Purchase Card On-Line System and Army High-risk Transactions

PCOLS identified Army high-risk transactions that we determined did not comply with laws and regulations for using Government Purchase Cards (GPC). Specifically, 17 noncompliant transactions valued at \$1.2 million were made on cards issued by eight Army contracting offices. The Army detected only one of the transactions. Two of the transactions resulted in more than \$1 million in potential Antideficiency Act violations.

The transactions were noncompliant because cardholders and approving officials responsible for the transactions ignored GPC laws and regulations to facilitate making desired purchases to meet mission needs. They also believed the immediate need for an item overrode GPC business rules.

Army GPC officials did not detect 16 of the 17 noncompliant transactions because the Army did not use a data mining system, such as PCOLS, to identify high-risk transactions and independently monitor the Army's GPC program. Army officials believed it was too difficult to implement a data mining tool.

PCOLS did identify high-risk transactions that did not comply with laws and regulations for using GPCs. The Army did not use a data mining program like PCOLS for this purpose and missed the opportunity to identify noncompliant transactions and potentially prevent misuse of its GPC. This led to Army cardholders wasting funds by procuring prohibited items and by splitting purchases that did not receive the benefit of competition.

Transactions Must Comply With Laws and Regulations

PCOLS identified GPC transactions that were high-risk and did not comply with laws and regulations at eight Army contracting offices. Of the 112 transactions reviewed, 17 were noncompliant. See Appendix B for details on the transactions by type of noncompliance and by contracting office. The following sections provide details on specific noncompliant transactions identified in our review.

Transaction That Split Purchases, Failed to Meet the Bona Fide Need Rule, and Resulted in a Potential Appropriation Violation

One high-risk transaction that PCOLS identified as a possible split purchase was made by a 3rd Infantry Division cardholder located at Fort Stewart, Georgia.¹ The transaction was one of a group of transactions worth \$1,023,519 that were intentionally split for each to be within the cardholder's GPC purchase limit of \$3,000.

¹ The cardholder was supported by the Mission and Installation Contracting Command (MICC) Contract Support Element. MICC provides contracting capabilities and services for customers that include the U.S. Army Installation Management Command, U.S. Army Forces Command, the U.S. Army Training and Doctrine Command, the U.S. Army Reserve Command, and the U.S. Army Medical Command. MICC uses seven contracting centers and 35 contracting offices throughout the continental United States, Alaska, and Puerto Rico.

Split Purchase. The cardholder at Fort Stewart made an improper split purchase with Integrity Products of Sarasota, Florida, for the purchase of 267 long-sleeve shirts with an Army unit logo, valued at \$2,994. This was one of a series of noncompliant transactions made by the cardholder at the end of FY 2009. The transaction for shirts did not comply with 10 U.S.C. § 2304 and FAR 13.003. (See the table in the Introduction for criteria summaries.)

The billing statement for the shirt purchase showed the cardholder made 20 additional purchases with Integrity Products on the same day as our sample transaction, September 28, 2009. Each of these transactions was under \$3,000, with a total value of \$53,687.

...the cardholder made 405 purchases valued at \$1,023,519 using 29 different vendors to obtain more than 57,000 items.

The entire billing statement for the period through October 19, 2009, showed the cardholder made 405 purchases valued at \$1,023,519 using 29 different vendors to obtain more than 57,000 items. The cardholder stated that all of these purchases were to replenish the 3rd Infantry Division Office of Retention inventory of gift items to be given out as recognition items² for recruitment and retention purposes. All of these year-end purchases were split purchases because they were made to fill a single requirement, to replenish gift items.

Breakdown of the GPC Control Process for Split Transactions. The Army GPC control process was effective in identifying these Fort Stewart transactions as split purchases. Specifically, during the annual review of the 3rd Infantry Division Retention Office AO account for transactions that occurred during 2009, an Alternate Agency/Organization Program Coordinator (A/OPC) identified the split purchases. However, the A/OPC provided a statement to us that the former head of the contracting office instructed the A/OPC and Alternate A/OPC to take no corrective or punitive action against the AO or the cardholder and to continue to let the cardholder split purchases. She could not provide documentation that the head of the contracting office gave her that instruction or why.

Potential Appropriation Violation and Bona Fide Need Violation. Fort Stewart personnel also potentially violated the ADA because they used FY 2009 appropriated funds and could not demonstrate that the items were to be used in FY 2009 and appeared to be for FY 2010. The practice of using a fiscal year's funding for the needs of the following year results in a violation of the Bona Fide Needs Rule.

Documentation showed that similar multiple split purchases occurred again in September 2010. Personnel at Fort Stewart used large amounts of year-end FY 2010 funds to purchase gifts. In accordance with DoD Financial Management Regulation (FMR), volume 14, chapter 3, "Preliminary Reviews of Potential Violations," the Assistant Secretary of the Army (Financial Management and Comptroller) needs to initiate a preliminary review of the purchase of the recognition items as a potential ADA violation.

² Recognition items are defined in 10 U.S.C. § 2261, "Presentation of recognition items for recruitment and retention purposes," as items of nominal or modest value (less than \$50), such as a commemorative coin, medal, trophy, badge, flag, poster, painting, or other similar item designed to recognize or commemorate an individual's service in the Armed Forces.

Other Issues Identified. In the last month of FY 2009, the Fort Stewart Budget Office provided more than \$1 million of additional funds to the Retention Office with instructions that all of the money would have to be spent by September 30, 2009.

The AO allocated the additional funds to the various 3rd Infantry Division brigades. However, the AO did not establish a Government need for the items purchased; instead, he purchased as many items as he could to use up the funding made available.

...the Fort Stewart Budget Office provided more than \$1 million of additional funds to the Retention Office with instructions that all of the money would have to be spent by September 30, 2009.

The cardholder and the AO did not properly scrutinize the purchase requests received from the brigades. The following issues resulted:

- Six transactions, valued at \$14,353, were made for 835 items shipped to an individual's personal address rather than to a Government office or facility. The items included dominoes, laptop bags, knives, shirts, flashlights, fishing lures, and fishing packs.
- At least five transactions valued at \$14,979, were made for 217 individual items that exceeded the \$50 threshold for each gift.
- More than 57,000 items were procured for distribution throughout the next fiscal year.
- Highly pilferable items were purchased that may be considered desirable for personal use or resale, such as knives, Nike[®] golf shirts, Adidas[®] wind jackets, and Titleist Pro V1[®] golf balls.
- Inventory controls were not maintained to show:
 - what was bought,
 - when it was bought,
 - to whom it was given,
 - when it was provided, and
 - why it was given to them.
- Items were stored in outdoor storage containers, which were not climate controlled and may not have been suitable for storing the items.
- There were no limits on the amount of items an individual could receive.

Management Actions. We briefed the Director, Mission Support Element for the 3rd Infantry Division and a representative from the 3rd Infantry Division Comptroller Office on the results of our site visit. They agreed with our conclusions and stated they would:

- take immediate action to determine exactly what happened with the shipments sent to a personal home address,

- institute a policy to ensure that the Retention Office keeps an inventory and develops a requirements matrix to ensure that they are not procuring unnecessary items, and
- establish a Blanket Purchase Agreement to prevent future split purchases.

The Chief of Staff of the 3rd Infantry Division also assigned an investigator to review the shipments that went to a home address. We agreed with the proposed actions.

Transaction That Split Purchases, Failed to Meet Legitimate Government Need, and Resulted in a Potential Appropriation Violation

One sample transaction, at U.S. Army Corps of Engineers (USACE) Philadelphia District, Pennsylvania, split a requirement into multiple purchases, failed to meet a Government need, and potentially violated appropriation laws.

Requirement Split Into Multiple Purchases. A USACE, Philadelphia District, cardholder purchased dress shirts with logos for USACE Headquarters leaders to wear to meetings with the public and the press. He split the purchase into two transactions, which circumvented his single purchase limit. He purchased 80 men's shirts for \$2,135 on one day and purchased 35 women's shirts for \$2,330 the following day. The total cost of \$4,465 for the 115 shirts exceeded the cardholder's purchase limit of \$2,500. The transaction did not comply with 10 U.S.C. § 2304 and FAR 13.003.

The total cost of \$4,465 for the 115 shirts exceeded the cardholder's purchase limit of \$2,500.

Legitimate Government Need. The USACE, Philadelphia District, purchase of clothing for employees did not meet a legitimate Government need and was a potential violation of the Purpose Statute. USACE personnel said the purchase was for shirts for "headquarters USACE executive staff to be worn when participating in public meetings and when addressing the press." The Comptroller General has examined the propriety of the use of appropriated funds to purchase clothing for civilian employees. In Comptroller General Decision B-288828, the Comptroller General stated, "Absent statutory authority, items of wearing apparel are the employee's personal responsibility, and not the government's, and appropriated funds are not available for their purchase."

Potential Appropriation Violation. The USACE, Philadelphia District, cardholder potentially violated the ADA because the items purchased did not meet a legitimate Government need. In accordance with DoD FMR, volume 14, chapter 3, the Assistant Secretary of the Army (Financial Management and Comptroller) needs to initiate a preliminary review of this purchase of clothing items as a potential ADA violation.

Transactions That Split Purchases to Circumvent the Single Purchase Limit

Cardholders split seven transactions to circumvent the single purchase limit. Cardholders made multiple purchases for acquiring goods or services to meet a single requirement, thereby circumventing their respective single purchase limits, at the Army Medical Command, the 410th Army South Contracting Support Brigade, the Army Nonappropriated Fund, the Army

Material Command, MICC (Fort Huachuca, Arizona, and Fort Bragg, North Carolina), and USACE, Engineer Research and Development Center, Mississippi. These transactions did not comply with 10 U.S.C. § 2304 and FAR 13.003.

For example, at the U.S. Army Medical Command in Europe, a cardholder split purchases that if combined would exceed the single purchase limit of \$25,000.

The transaction occurred when U.S. Army Medical Command issued an order for all soldiers to carry hand

sanitizer during a 2009 influenza pandemic. In response to the requirement, in October 2009, the U.S. Army Medical Command cardholder made four purchases of hand sanitizer, totaling \$96,908, from the same vendor. Each purchase was just under the single purchase limit at \$24,251; \$24,300; \$24,300; and \$24,057. Both the cardholder and the AO stated that they considered the transactions to be proper because they needed the items immediately. They stated they believed that the mission requirement superseded the rules for the use of the card.

...the U.S. Army Medical Command cardholder made four purchases of hand sanitizer, totaling \$96,908, from the same vendor.

See Appendix C for details on the remaining six transactions that split purchases to circumvent the single purchase limit.

Transactions That Did Not Have Required Supporting Documentation

Four transactions were not documented. One transaction, valued at \$17,772, occurred at the 409th Army Expeditionary Contracting Command – Europe. The remaining three transactions, valued at \$2,520, \$2,500, and \$2,482, were generated at three other undetermined MICC sites.

Cardholders, AOs, A/OPCs, and other Army personnel at the 409th and MICC could not locate or provide supporting documents for the four transactions. Additionally, the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) A/OPC could not provide us information on the transactions. Army Regulation AR-715-xx, section 3-10, “File Retention,” states that the billing officials will maintain these records at their physical locations or at a records holding area.

PCOLS flagged the four transactions as high-risk for a variety of reasons. One of the transactions was flagged as having several risks, including a merchant code that is not frequently used in the account, an amount close to the single purchase limit, and a merchant category code group type. However, the supporting documentation for the transactions was not provided for review, so they could not be analyzed for compliance. Because there was no supporting documentation, the transactions were not in compliance with DoD FMR, volume 10, chapter 23. Additionally, the noncompliant transactions were in violation of 31 U.S.C. § 1501.

Transactions That Split Payments to Contractors

The cardholder at MICC, Fort Eustis, Virginia, split the payments on two contract invoices to remain under her single purchase limit. Army Regulation AR-715-xx specifies that the maximum single transaction dollar limit for payments against existing contracts must be as identified in the contract. This ensures that the cardholder assigned to make the contract payment has adequate authority to make it. In this case, the maximum single dollar limit for the contract payment was not identified in the contract and the cardholder did not have adequate

authority to make the invoice payment. Splitting these payments also did not comply with 10 U.S.C. § 2304 and FAR 13.003.

...the cardholder split the payment for the first invoice, which was \$1,190,715, into two payments, one of \$590,715 and the other for \$600,000.

At MICC, Fort Eustis, the cardholder received two invoices for more than \$1,000,000 each for contract modifications involving programmed dry-docking, cleaning, painting, and repairs to an Army Reserve vessel. The cardholder was authorized a single purchase limit of \$1,000,000. The documentation showed that the

cardholder split the payment for the first invoice, which was \$1,190,715, into two payments, one of \$590,715 and the other for \$600,000. The documentation also showed that the second invoice, which was for \$1,109,103, was also split into two payments, one for \$509,103 and the other for \$600,000. The cardholder split the payments to remain below her \$1,000,000 single purchase limit.

The cardholder and the AO indicated they did not believe that splitting the payment was noncompliant. Subsequent to our audit, the AO requested an increase in the cardholder's single purchase limit from \$1,000,000 to \$2,000,000.

Transactions That Failed to Meet a Legitimate Government Need

Cardholders improperly acquired items that did not meet a legitimate Government need. These transactions occurred at the offices in the Georgia Army National Guard and the USACE, Philadelphia District. These purchases did not meet the mission needs intended for the funds used and violated the Purpose Statute.

A cardholder at the Georgia ARNG purchased executive winged chairs for an adjutant general's conference room with funds intended to support the soldier. The funds used were designated for use by the Army Communities of Excellence Program.

Purchasing executive furniture for the adjutant general's conference room did not enhance the quality of life for the soldier population ...

Defense Finance and Accounting Service - Indianapolis Manual 37-100-09, "The Army Management Structure," states that Army Communities of Excellence funds are intended to "improve the Quality of Life throughout the Army" and to enhance the quality of life for the general soldier population or improve/enhance civilian community image/importance. Purchasing executive furniture for the adjutant general's conference room did not enhance the quality of life for the

soldier population or enhanced "civilian community importance."

A cardholder at USACE, Philadelphia District purchased 42 knives valued at \$1,595 to give away as safety awards. The awards program is governed by Department of the Army Pamphlet 385-10, "Army Safety Program," which states:

Leaders are encouraged to develop awards that are tailored to recognize the accident prevention accomplishments within their sphere of activity, interest, or operation.... Awards will be signed by the organization's leader and will

include, at a minimum, the awardees' name and the contribution for which the award is given.

This purchase did not meet the awards requirements for the Army's safety program as the appropriate official did not sign the knives, and neither the awardees' names nor the purposes for receiving the awards were engraved on the knives. Additionally, two of the knives did not have any engraving. Further, the purchase was made without the participation or endorsement of the USACE Philadelphia District Safety and Occupational Office. Without meeting the requirements expressed by the Army pamphlet, the knives purchase did not meet a mission need and the purpose of the funds used.

Army Government Purchase Card Program Data Mining Process Needs Improvement

The 17 transactions that were noncompliant occurred because cardholders ignored the GPC business rules so the cardholders could make the purchases they needed or wanted to make. The rate of violations of the laws and regulations in the transactions we sampled indicated to us that a risky control environment existed in the Army. Army GPC personnel, including A/OPCs and AOs, did not readily detect the noncompliant use of the GPCs and needed to be more proactive in attempting to deter these types of purchases.

On November 19, 2008, the Director, Defense Procurement, Acquisition Policy, and Strategic Source issued a memorandum directing all DoD activities to develop a plan and schedule to implement the use of PCOLS. On March 3, 2010, the Director issued another memorandum requesting the Army provide an implementation plan within 30 days because the Army had not implemented the use of PCOLS.

On April 26, 2010, the Deputy Assistant Secretaries of the Army (Financial Operations) and (Procurement) sent a memorandum to the Director, Defense Procurement and Acquisition Policy, informing him that the Army was unable to implement PCOLS at that time.

The Army GPC program could benefit from the use of a data mining tool or a risk analysis system for GPC information because of the size of the program and value of its transactions.

In the memorandum, the Deputy Assistant Secretaries indicated that they were willing to attempt the pilot use of PCOLS in the Army if the system was modified to accommodate the Army's command and accounting structure. They added that they would continue to work with the Office of the Secretary of Defense (Program Development and Implementation Office) until impediments to implementation are resolved. At the time of the audit, the

Army was not working to resolve the impediments and had not agreed to use PCOLS.

The Army GPC program could benefit from the use of a data mining tool or a risk analysis system for GPC information because of the size of the program and value of its transactions. In FY 2009, the Army GPC program used about 53,300 cards with cardholders making about 4.5 million transactions valued at \$4.5 billion. Data obtained from the PCPMO for the fourth quarter of FY 2010 alone identified 53,300 accounts in the hands of 23,423 cardholders and accounted for approximately \$1.15 billion in transactions. The Army GPC program is the largest

in DoD. Only two people in the ASA(AL&T) program management office monitor the Army GPC program. Without using a data mining tool, Army program management personnel could not readily review the Army-wide program to assess its risks. In addition, without a data mining process, such as afforded by PCOLS or other data mining systems, Army program management personnel could not identify high-risk transactions for independent review.

Detecting Improper Transactions in the Army Government Purchase Card Program

Army AOs and A/OPCs did not detect the errors in the transactions for 16 of the 17 noncompliant transactions in our sample. In some cases, Army personnel responsible for the transactions disagreed with our determination that the transactions were improper and believed mission requirements outweighed the rules for use of the GPC.

Noncompliance with GPC business rules in the Army indicates the control structure needs to be enhanced. To correct this issue, the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) needs to pursue the use of a data mining system, such as PCOLS, to identify high-risk transactions and independently monitor the Army's GPC Program. This action would provide the Army with a proactive process to better monitor compliance.

Conclusion

The improper transactions in our sample violated the United States Code, the FAR, DoD FMR, and the Army Regulation. The transactions also wasted valuable Government resources and in certain instances were a misuse of Government funds. The results of our analysis of the Army high-risk GPC transactions identified by PCOLS demonstrated that there is a useful tool for capturing better information on improper transactions that the Army GPC Program could use. Data mining provides an independent transaction review that has the potential to ensure greater compliance with applicable laws and regulations and decrease the potential for fraud, waste, and abuse.

Recommendations, Management Comments, and Our Response

1. We recommend that the Assistant Secretary of the Army (Acquisition, Logistics and Technology):

a. Task the eight contracting offices under which the 13 noncompliant transactions occurred to investigate the transactions, initiate an administrative review, and take appropriate action to include pecuniary recovery.

b. Initiate a review of the four transactions for which no supporting documentation was provided and take appropriate action.

c. Implement use of a data mining system, such as the Purchase Card On-line System, to identify high-risk transactions and independently monitor the Army's Government Purchase Card Program.

Assistant Secretary of the Army (Acquisition, Logistics and Technology Response

The Deputy Assistant Secretary of the Army (Procurement) agreed with Recommendations 1.a through 1.c. However, for Recommendations 1.a and 1.b, she did not state whether she would task the contracting offices to investigate the 13 noncompliant transactions and the 4 transactions with no supporting documentation and initiate an administrative review as appropriate. For Recommendation 1.c, she stated that the Army is conducting a pilot of the Purchase Card On-line System that will run through March 2012. She further stated that subsequent to the pilot, the results will be analyzed to determine whether the Purchase Card On-line System should be expanded throughout the Army.

Our Response

The Deputy Assistant Secretary of the Army (Procurement) comments were not fully responsive. We request the Assistant Secretary of the Army (Procurement) provide additional comments to the final report on whether she will task the contracting officers to investigate the 13 noncompliant transactions and the 4 transactions with no supporting documentation, and whether she will initiate an administrative review.

d. Review the remaining 3,339 high-risk transactions to ensure that they comply with laws and regulations for using Government Purchase Cards.

Assistant Secretary of the Army (Acquisition, Logistics and Technology Response

The Deputy Assistant Secretary of the Army (Procurement) agreed with the findings that supported the reasoning behind Recommendation 1.d. However, she proposed an alternative solution to the recommendation. She stated that instead of reviewing transactions from 2009, the majority involving split requirements, they should move forward by issuing guidance that specifically addresses split purchases as a key concern and direct additional audits from all agencies. In addition, she stated that the new guidance will advise Government Purchase Card program officials to focus their reviews on identification of split requirements.

Our Response

The Deputy Assistant Secretary of the Army (Procurement) comments were partially responsive. The way forward proposed by the Deputy Assistant Secretary of the Army (Procurement) is a positive step in the direction of placing significant emphasis on the review and identification of split requirements that result in split purchases. However, the Army should not ignore possible violations of laws and regulations that could be uncovered in the review of the remaining identified high-risk transactions. Therefore, we ask the Deputy Assistant Secretary of the Army to reconsider her position and provide comments in response to the final report.

2. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller), in accordance with DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 14, chapter 3, "Preliminary Reviews of Potential Violations,"

a. **Initiate a preliminary review within 14 days of the date of this report to determine whether a violation occurred for:**

1) **Army's use of \$1,023,519 of FY 2009 Operating and Maintenance appropriation to satisfy FY 2010 requirements for the purchase of recognition items at Fort Stewart, Georgia.**

Assistant Secretary of the Army (Financial Management and Comptroller Response

The Deputy Assistant Secretary of the Army (Financial Operations) agreed and stated that the investigation is currently open.

Our Response

The Deputy Assistant Secretary of the Army (Financial Operations) comments were responsive. No further comments are required.

2) **Purchase of \$4,465 of clothing at the U.S. Army Corps of Engineers, Philadelphia District.**

Assistant Secretary of the Army (Financial Management and Comptroller Response

The Deputy Assistant Secretary of the Army (Financial Operations) agreed with opening the investigation. He stated that he directed the Headquarters, U.S. Army Corps of Engineers to perform the investigation and provide a report. The subsequent investigation found there was no clear violation of the Antideficiency Act and the investigation was closed.

Our Response

The Deputy Assistant Secretary of the Army (Financial Operations) comments were not responsive. The U.S. Army Corps of Engineers preliminary review of a potential Anti-deficiency Act violation concerning its purchase of clothing appears to be contrary to the standards set forth for preliminary reviews in chapter 14, volume 3 of the DoD Financial Management Regulation. Paragraph 030202 B of chapter 14, volume 3 of the DoD Financial Management Regulation states:

“The preliminary investigator or the review team lead shall be an individual with no vested interest in the outcome of the review. The preliminary investigator or the review team lead shall also be capable of conducting a complete, impartial, and unbiased review.” Paragraph 030202 B further states that: “To help assure independence and impartiality during the review, an investigator or review team lead shall be selected from an organization external to the installation-level organization being reviewed. DoD Components are required to document that investigator's and/or review team leads are free of personal, external, and organizational impairments and retain the document(s) in the ADA case file.”

Since the U.S. Army Corps of Engineers made the clothing purchase that is the subject of the potential Anti-deficiency Act violation, the U.S. Army Corps of Engineers had a vested interest

in the outcome of the preliminary review. Therefore, the investigator or review team lead should also be assigned from an organization outside of the U.S. Army Corps of Engineers in order to assure independence and impartiality during the review.

We request the Assistant Secretary of the Army (Financial Operations) provide additional comments to the final report that shows the Army will conduct the preliminary review of the potential Antideficiency Act violation from an organization outside of the U.S. Army Corps of Engineers.

b. Complete the preliminary review within 90 days and provide the results of the preliminary investigation to the Office of the Inspector General.

Assistant Secretary of the Army (Financial Management and Comptroller Response

The Deputy Assistant Secretary of the Army (Financial Management and Comptroller) did not specifically comment on this recommendation. However, the reviews were promptly begun before the issuance of the draft report in July and September 2011 respectively.

Our Response

The Assistant Secretary of the Army (Financial Management and Comptroller) complied with the recommendation before we issued our official draft report based upon our management discussion draft provided earlier. No further comments are required for this recommendation.

Appendix A. Audit Scope and Methodology

We conducted this performance audit from April 2010 through January 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The OUSD(ATL) PCPMO applied the data mining application to 96,508 Army sponsored transactions that occurred in June through November 2009. The data mining application identified 69,014 transactions with risk factors of potential impropriety. The PCPMO identified 3,451 transactions as those of greatest concern and submitted them to the DoD OIG for review. We used the Office of Inspector General's Quantitative Methods Division to select a randomized non-statistical³ sample of 112 of the 3,451 transactions to review.

With the assistance of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) and the PCPMO, we requested copies of support documentation for the selected transactions from the applicable AO, billing official, or the A/OPC. This included:

- itemized receipts from vendors,
- purchase request documentation,
- any prior approval documentation,
- applicable billing cycle statements for transactions,
- any other documents related to the purchases and their purposes.

The documentation received was the basis of our tests of the propriety of the transactions. We tested whether the transactions met a Government need and were properly executed. We also tested, if indicated, whether the transactions were part of a split requirement set and, if applicable, whether prior approval was received. We did not test the full controls of the Army's GPC program, such as the A/OPCs' management of the program, the training provided, and the appointment processes. We performed limited tests against applicable laws and regulations on whether Army GPC management personnel identified the improper transactions we identified in our sample.

Use of Computer-Processed Data

We obtained transaction data for the Army GPC transactions flagged as high-risk by PCOLS from OUSD (ATL). U.S. Bank, which is the issuing bank of all Army GPCs, provided the data from the universe to OUSD (ATL). We assessed the reliability of the U.S. Bank data by tracing data to source documents. Specifically, we compared the U.S. Bank data to sales receipts, invoices, approval documents, contracts, and billing statements. These assessments showed that the data was sufficiently reliable for our review.

³ A randomized non-statistical sample is a sample in which the sample items were drawn randomly but the number of items in the sample is not sufficient to project to the population.

Use of Technical Assistance

We relied on the technical expertise of the statistician in the Office of Inspector General's Quantitative Methods Division to provide quantitative support for this audit.

Prior Coverage

No prior coverage has been conducted on the use of the Purchase Card On-Line System. However, during the last five years, the Army Audit Agency has issued 12 reports discussing the Army's Government Purchase Card Program.

Army

A-2011-0109-ALC, Arlington National Cemetery Operations-Government Purchase Card

A-2009-0168-ALC, Government Purchase Card Convenience Checks U.S. Army Corps of Engineers Tulsa District

A-2009-0088-FFP, Followup Audit of Public Works Operations in Korea

A-2008-0295-FFM, Vendor Payment Methods Fort Campbell, Kentucky

A-2008-0200-ALC, Government Purchase Cards – Seattle District, U.S. Army Corps of Engineers

A-2008-0159-ALC, Contract Modification Process and Government Purchase Card Procedures, Walla Walla District, U.S. Army Corps of Engineers

A-2007-0202-ALA, Management of Army Card Program, September 5, 2007

A-2007-0159-ALC, Army Purchase Card Program, Department of Emergency Services, Fort McCoy, Wisconsin

A-2007-0105-ZBI, Emergency and Extraordinary Expense Funds Official Representation Funds-Limitation .0012, Headquarters, Third U.S. Army, Fort McPherson, Georgia

A-2007-0099-ALC, Time-Sensitive Issue – Potential Antideficiency Act Violation, Audit of Contracting Operations – White Sands Missile Range

A-2007-0041-FFH, Government Purchase Card, Red River Army Depot, Published 20 December 2006

A-2007-0037-FFH, Followup Audit of Government Purchase Card Management Controls, U.S. Army Contracting Command

Appendix B. Noncompliant Transactions

Of the 112 transactions reviewed, 17 did not comply with laws and regulations. The table shows details on the transactions by type of noncompliance and by contracting office.

Contracting Office	Cardholder Account Ending In	Approving/Billing Official Account Ending In	Value of Transaction	Associated Transactions*
Split Purchase Transaction, Bona Fide Need Violation, and Potential Appropriation Violation				
MICC (Ft. Stewart)	5775	6910	\$2,994	\$1,020,525
Split Purchase Transaction, Government Need Violation, and Potential Appropriation Violation				
USACE (Philadelphia)	1155	5923	2,135	2,330
Split Purchase Transactions				
MEDCOM	0891	4788	24,300	72,608
410 th	6878	2855	10,948	24,089
NAF	4890	2335	4,250	5,419
AMC	7919	2257	2,558	3,438
MICC (Ft. Huachuca)	0385	6590	1,575	3,308
USACE (Mississippi)	8803	2007	2,391	21,579
MICC (Ft. Bragg)	9726	5946	2,537	5,093
Transactions With No Supporting Documentation				
409 th	4347	3051	17,772	-
MICC (Unknown Site)	3860	7904	2,520	-
MICC (Unknown Site)	7506	3798	2,500	-
MICC (Unknown Site)	7174	5069	2,482	-
Split Payment Transactions				
MICC (Ft. Eustis)	2483	9090	590,715	600,000.00
MICC (Ft. Eustis)	2483	9090	509,103	600,000.00
Transactions That Did Not Meet a Government Need				
ARNG (Georgia)	5403	4023	2,479	-
USACE (Philadelphia)	8461	7018	1,595	-
Sub Totals			\$1,182,854	\$2,358,389
Grand Total				\$3,541,240

*The "Associated Transactions" Amount is the value of the identified matching split transactions for the sample.

409th 409th Army Expeditionary Contracting Command - Europe
410th 410th Army Contracting Support Brigade
AMC Army Material Command
ARNG Army National Guard
MEDCOM Army Medical Command
MICC Army Mission and Installation Contracting Command
NAF Army Nonappropriated Fund
USACE United States Army Corps of Engineers

Appendix C. Remaining Split Purchases to Circumvent the Single Purchase Limit

In addition to the example at the U.S Army Medical Command in Europe, cardholders at six additional sites split transactions to circumvent their respective single purchase limits.

A 410th Army Contracting Support Brigade cardholder split purchases that when combined exceeded the single purchase limit of \$25,000. The cardholder made two transactions to purchase security monitors with a combined cost of \$35,037. The AO could not provide supporting documentation or justification for the split transaction. This is in violation of Army Regulation AR-715-xx.

An Army Material Command cardholder split purchases that when combined exceeded the single purchase limit of \$3,000. The three transactions were for desiccant that cost \$5,996. The supporting documentation indicated that the transactions were for a single job order. The cardholder stated that the purchases were made when she first started her position and that she was unaware that the purchase requests were for the same job order. The AO indicated that he did not identify the split transaction in his review and that it must have “slipped by.”

An Army Nonappropriated Fund cardholder in Germany split purchases for gift cards to be awarded as prizes for poker tournaments. This cardholder split the single requirement into seven transactions totaling \$9,669 to avoid the single purchase limit of \$5,000.

An MICC cardholder at Fort Huachuca, Arizona, split purchases for food service items at dining facilities. This cardholder made multiple purchases on the same day with the same vendor totaling \$4,883 to avoid the single purchase limit of \$3,000. The Plans and Operations Division Chief agreed that these purchases were split purchases and stated that the new cardholder for this account is putting together a Blanket Purchase Agreement for these reoccurring purchases from the same vendor.

A USACE, Engineer Research and Development Center, Mississippi, cardholder split purchases for magazine and journal subscriptions for a library. This cardholder split the single requirement into eleven transactions totaling \$23,970 to avoid the single purchase limit of \$3,000.

An MICC cardholder at Fort Bragg, North Carolina, split purchases that when combined exceeded the single purchase limit of \$3,000. The four transactions were for printer cartridges totaling \$7,630. The supporting documentation indicated that the purchases had the same requirement, to provide the same squadron with copy/printer paper and printer cartridges. The AO stated that he thought nothing was wrong with the split transactions.

Assistant Secretary of the Army (Acquisition Logistics and Technology) Comments



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

SAAL-PB

DEC 15 2011

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE, ARLINGTON, VIRGINIA 22202-4704

SUBJECT: Army Needs to Identify Government Purchase Card (GPC) High-Risk Transactions (Project No. D2010-D000FJ-0202.000)

1. The Army has reviewed the subject audit and provides the following comments. The report states that "only two people in the ASA(ALT) program management office monitor the Army GPC program." This statement is true; however, officials in the field from both the acquisition and financial communities share oversight of the GPC program. Both billing officials and cardholder supervisors are essential to the oversight process.
2. The Army concurs with recommendations 1a, 1b, and 1c. Additionally, the Army is conducting a pilot of the PCOLS. This pilot will run thru March 2012 when the results of the system will be analyzed. The results of this evaluation will be compared with the costs of establishing and maintaining the PCOLS to determine if PCOLS should be expanded throughout the Army.
3. The Army concurs with the findings behind comment 1d and realizes it is a key concern within the GPC program. While we understand the recommendation to review the remainder of these high-risk transactions from 2009, a majority being split requirements, we believe it will be of more benefit moving forward to issue guidance to address split purchases as a key concern and direct continued audits from all agencies. This guidance will advise the GPC Agency/Organization Program Officials to focus their reviews on helping to identify split requirements and use existing tools to help identify these types of transactions.
4. If additional information is required, my point of contact is [REDACTED]

Kim D. Denver
Deputy Assistant Secretary
of the Army (Procurement)

Assistant Secretary of the Army (Financial Management and Comptroller) Comments



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

NOV 09 2011

MEMORANDUM THRU Auditor General, Department of the Army, 3101 Park Center Drive, Alexandria, Virginia 22302-1596

FOR Inspector General, Department of Defense, Defense Payments and Accounting Operations, 400 Army Navy Drive, Arlington, Virginia 22202-4704


SUBJECT: Draft Report, Army Needs to Identify Government Purchase Card High-Risk Transactions (Project No. D2010-D000FJ-0202.000)

1. We appreciate the opportunity to comment on the subject report and are providing the Army position for Recommendation 2.

a. The audit report identified \$1,023,519 in transactions at Fort Stewart that cited Fiscal Year 2009 Operation and Maintenance, Army funds in support of an apparent Fiscal Year 2010 bona fide need. In response to this finding, the Army directed the U.S. Army Forces Command to issue a flash report in accordance with the provisions of Volume 14, Chapter 3 of the DoD Financial Management Regulation. Consequently, a preliminary investigation was opened on September 6, 2011 and an investigating officer was appointed on September 15, 2011. This investigation is currently in process.

b. On July 28, 2011, the Army also directed that Headquarters, U.S. Army Corps of Engineers provide a report pursuant to a potential violation related to a \$4,465 clothing purchase by the U.S. Army Corps of Engineers, Philadelphia District. The report concluded that there was no clear violation of the Antideficiency Act statutes. This investigation was subsequently closed.

2. My point of contact for this report is [REDACTED] who can be reached at [REDACTED]


John J. Argodale
Deputy Assistant Secretary of the Army
(Financial Operations)



Inspector General Department of Defense